Canadian Merrill Ltd.

The 22nd Annual Report to June 30, 1973

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Directors

Mathew M. Baldwin
Charles Bouffard
C. Antoine Geoffrion, Q.C.
Lee H. Hallowell
Randolph P. Mills
Hubert J. Mockler
Horace ReKunyk
R. L. Segsworth

Officers

Chairman of the Board
Randolph P. Mills

President
Hubert J. Mockler

Executive Vice-President
Horace ReKunyk

Vice-President
Mathew M. Baldwin

Secretary-Treasurer
G. Barry Padley, C.A.

Mine Manager
Edward W. Watt
Chibougamau, Que.

Transfer agent & registrar

Canada Permanent Trust Company,
600 Dorchester Blvd. West,
Montreal, Quebec.

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Toronto, Ontario.

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The Canadian Bank of Commerce
Trust Company,
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Head Office

Suite 400, 621 Craig Street West,
Montreal, Quebec H3C 2H6.

Executive Office

Suite 3108, Tower One,
Toronto Dominion Centre,
Toronto, Ontario M5K 1E7.

Auditors

Price Waterhouse & Co.,
Toronto Dominion Centre,
Toronto, Ontario M5K 1G1.

The annual meeting of the shareholders of Canadian Merrill Ltd. will be held in The Windsor Hotel, Montreal, Canada, Tuesday, the 13th day of November, 1973 at 11:00 local time.

To the Shareholders of CANADIAN MERRILL LTD.

For the year ended June 30, 1973, Canadian Merrill achieved records in all areas of operations. Gross revenue from well servicing, equipment leasing, sale of oil and gas and minerals reached a new high of $8.0 million. Pre tax cash flow which management considers to be the most significant financial operating figure amounted to $1.65 million or $0.82 a share.

During the past two years your Company has steadily diversified its interests in an attempt to broaden its earnings base. The primary objective was to seek investments in businesses which had a history of profitability or demonstrated a strong potential of becoming profitable in the near future. Our efforts on this score consisted mainly of converting cash and securities into operating companies either in or associated with the petroleum industry. In management's opinion results to date fully support these undertakings.

Provident Resources Gas on Stream

Provident Resources, our wholly owned oil and gas subsidiary, was successful in bringing on stream a substantial portion of its natural gas reserves so that by year end approximately 60% of the gas in the ground was connected to transmission facilities. Contract negotiations are currently in progress on reserves scheduled for delivery in 1974 and 1975 for prices considerably in excess of those presently being obtained. It is anticipated that the current negotiations will also result in increased prices for the gas presently being produced. During the year Provident either drilled for its own account or participated with others in the drilling of 44 wells mainly in central eastern Alberta. This represented the most aggressive drilling programme undertaken by that subsidiary to date. The results of this programme are outlined in more detail under the oil and gas section. The Company has joined a five company consortium which has obtained a 2.5 million acre concession in Peru. Canadian Merrill will participate to the extent of its 12½% interest in the exploration and development programme required by the Peruvian petroleum authorities. The concession area is well located in respect to the Amazon basin which has been the scene of much activity and success over the past few months. The Company will seek other such opportunities in the future to increase its exposure in new foreign plays both onshore and offshore. A further diversification in Provident's oil interests occurred last year when it purchased proven producing reserves and significant undeveloped acreage in the United States. The income from this production is more than adequate to service bank loans incurred to

buy the reserves. More importantly it provides the Company with income and an operating base in the United States which will enable it to expand its operations in this area as opportunities arise. For the coming year Provident anticipates carrying out another active exploration programme.

Baldwin & Knoll Sales At Record

Baldwin & Knoll Ltd., our oil and gas well servicing subsidiary recorded the highest sales in its history this year. This result was achieved through the combination of an expansion in its fleet of rigs and a slightly better utilization rate for all its equipment. In the period under review Baldwin & Knoll and its subsidiaries added 6 new units to its fleet bringing the total at year end to 38 rigs. These additions to our fleet maintained Baldwin & Knoll's position as the largest well servicing company in Canada. One of the units purchased has the deepest well servicing capacity of any rig in Canada. This new rig was displayed in a special showing to the industry and received an enthusiastic reception. In the absence of new major discoveries existing production facilities have been and will be called upon to meet the increasing demand for fossil fuels. Under these circumstances existing wells will require a greater frequency of servicing if they are to continually produce at their maximum productive capacities. As the major company in this industry these developments will be beneficial to our well servicing division.

L & M Oilfield up 300%

While all of Canadian Merrill's subsidiaries had favourable profit experiences, L & M Oilfield Equipment by far demonstrated the best performance from the standpoint of percentage gains. Both sales and cash flow nearly tripled over the previous period. This performance is all the more remarkable when measured in the context of the fact that this company has only been in existence for about three years. At its present rate of expansion L & M Oilfield will soon become one of the major companies leasing oil field equipment to the petroleum industry. As exploration and development moves further north the petroleum industry will require increasing amounts of capital. Consequently many companies will be looking towards leasing as opposed to purchase of equipment which is only used on an intermittent basis. It is anticipated that this trend will enhance the future growth of our rental and leasing division.

Copper Prospect

Development work at the Perch River copper prospect continued throughout the year. The surface area was cleared and overburden was removed down to the bed rock surface at which point a decline adit was driven to the mineralized vein. By the year end approximately 140 feet of the vein had been exposed and sampled. The work to date confirmed the results of the previous surface drilling and although it has not progressed to the stage where a production decision can be made the Company is sufficiently encouraged to believe that this property will become a viable economic mining operation. It is anticipated that we will have enough data within the next few months to reach a specific decision on this project.

Icon Sullivan Joint Venture

The management of the Icon Sullivan Joint Venture continued to provide the backbone of our mining operation interests and income during the last fiscal year. A substantial improvement in copper prices toward the year end materially improved our share of the profits from this source. At this stage it appears that copper demand and hence prices will remain buoyant for most of next year so that we expect to derive substantial revenues from the Icon mine again during 1973-1974. It should be noted however that the Icon orebody has already lasted somewhat longer than had been originally forecast and that it is becoming increasingly difficult to maintain ore reserves.

Financing

The growth achieved over the past two years has placed some heavy strains on the Company's available financial resources. In fact, Canadian Merrill has had to labour with a working capital deficiency for some time. So far the Company has been fortunate in having had excellent support from the Canadian Chartered banks. However present money conditions dictate that the company seek alternative sources of financing. In this regard management has been negotiating with a potential underwriter for the private placement of convertible debentures. Substantial positive progress is being made in this regard and it is expected that the financing will be completed in the near future.

Outlook

In the meantime your Company is continuing to expand its various operations and anticipates a further rise in earnings during the coming year. Profits from our resource operations will show a large increase over the next twelve months and will continue to make increasing contributions to earnings in the future. We strongly believe that the years ahead will see Canadian Merrill become a major resource company.

Our future will depend in a very large measure on the enthusiasm and dedication of our employees. In this regard, the Company is most fortunate in having been able to attract and hold a competent and hard working staff. Thus on behalf of all of the shareholders we would like to take this opportunity to thank all of our employees who worked so hard during the period under review.

Respectfully submitted on behalf of the Board of Directors.

R. P. Mills,
Chairman of the Board.

H. J. Mockler,
President.

October 10, 1973.
Toronto, Ontario.

Financial

The accompanying charts present the revenues and pre-tax cash flow from operations (excluding gains (losses) on sale of investments and extraordinary items) of Merrill and its subsidiaries. The information presented for the periods 1969 to 1972 inclusive includes the operations of service subsidiaries that were acquired in December, 1971 and May, 1972 (accounted for as purchases in the consolidated financial statements) as though their revenues and pre-tax cash flows had been part of the Merrill operations for the periods preceding their acquisition dates.

Expansion in all phases of the Company's operations is reflected in the 1973 consolidated financial statements. Record high levels of revenues and pre-tax cash flows were achieved by our resource and service subsidiaries.

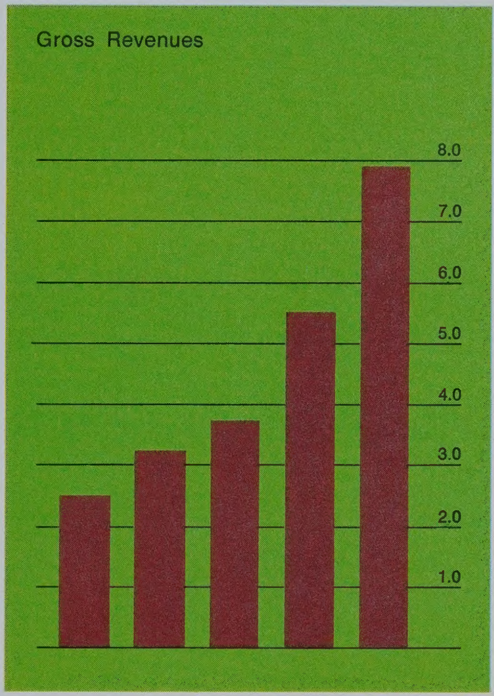
Revenues totalled $7,997,724, an increase of $6,610,082 over the previous year. As explained above and set forth in the accompanying chart, the actual revenue gain based on the inclusion of revenues for the comparable periods of operations was $2,418,064 or 43%. The actual revenue gain is comprised of $897,647 from our oil and gas operations and $1,519,320 from our service operations.

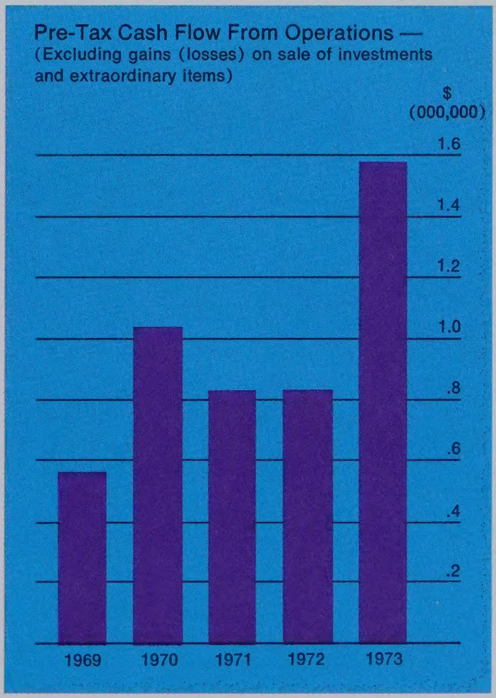
Pre-tax cash flow from operations amounted to $1,657,246 (83¢ per share) compared with $79,199 in 1972. Income, before extraordinary items, was $470,827 (24¢ per share) as compared with a loss of $596,217 (36¢ per share) for 1972.

Net income for 1973 was $501,677 (25¢ per share) as compared with a net loss (as restated) of $1,266,261 (76¢ per share) for 1972.

Capital expenditures totalled $4,614,285, an increase of $1,597,270 over 1972. The majority of these capital expenditures ($3,079,973) were incurred as the result of our expanding oil and gas exploration activity and the construction of gas gathering and compression facilities completed in November, 1972 for the delivery of approximately 40% of our natural gas reserves. The majority of the funds expended on capital additions were raised through operations, net increases in bank term debt, sale proceeds from non-operational assets and working capital. As the result of the large capital addition programme undertaken by the Company over the past two years our working capital has decreased by $2,618,282 to stand at a deficiency of $1,623,996 as at June 30, 1973. The majority of this deficiency, $1,220,725, is the current portion of our long term debt due within one year which will be liquidated by pre-tax cash flows generated within the next twelve months.

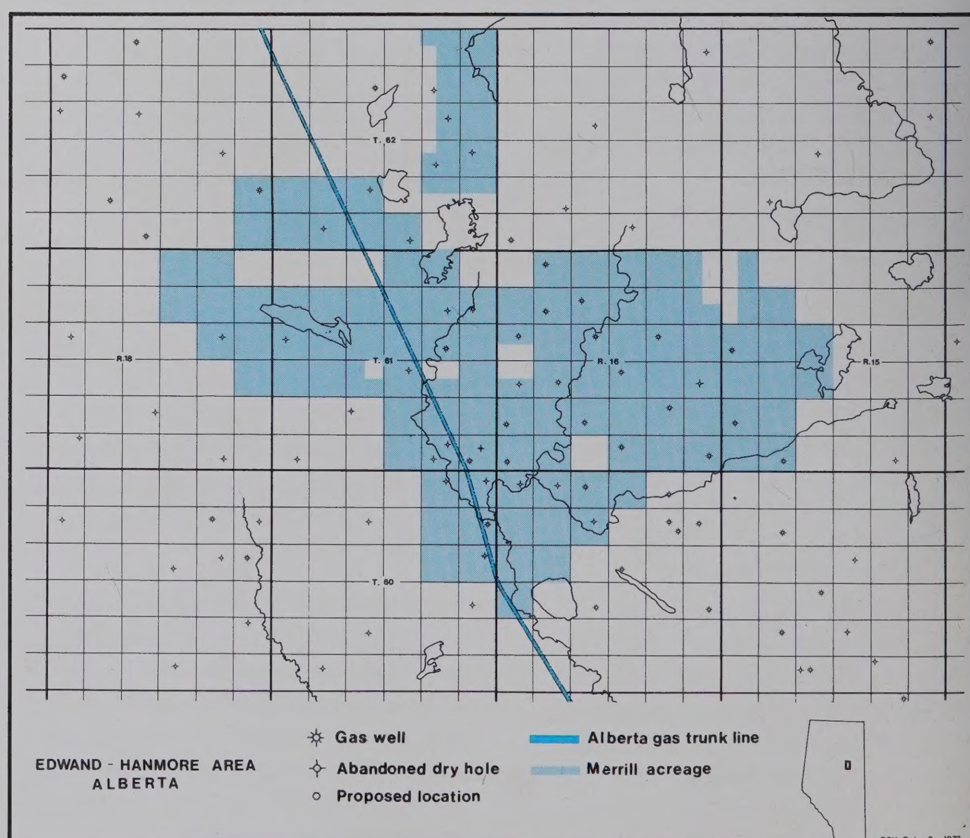
The Company is presently seeking to obtain additional financing which it is anticipated will place it in an excellent position to enjoy the growth inherent in the capital expenditures made during the last two years and to provide additional funds for new ventures.





Oil and Gas Operations

Provident Resources, the Company's wholly owned oil and gas subsidiary, carried out the most active exploration and development programme in its history during the fiscal year. Total expenditures for its own account and on behalf of the participants in the Provident Oil and Gas Programme 1972, amounted to about $3.5 million. As in the past the prime emphasis was on natural gas in shallow gas fields located in Central Eastern Alberta. A total of 44 wells were drilled resulting in the completion of 16 gas wells and three oil wells. Of this number 14 gas wells and three oil wells were completed in conjunction with the Provident Programmes. The last of the wells in the programme have not been drilled and as a result it is not possible to give a complete reserve estimate at this time. However, based on drill stem tests and geological interpretations, it appears that over 52 billion cubic feet of natural gas was discovered last year. By providing the tangible costs associated with these wells Provident owns approximately 50% of the reserves developed. A detailed engineering report is currently in the process of preparation and should be available shortly.



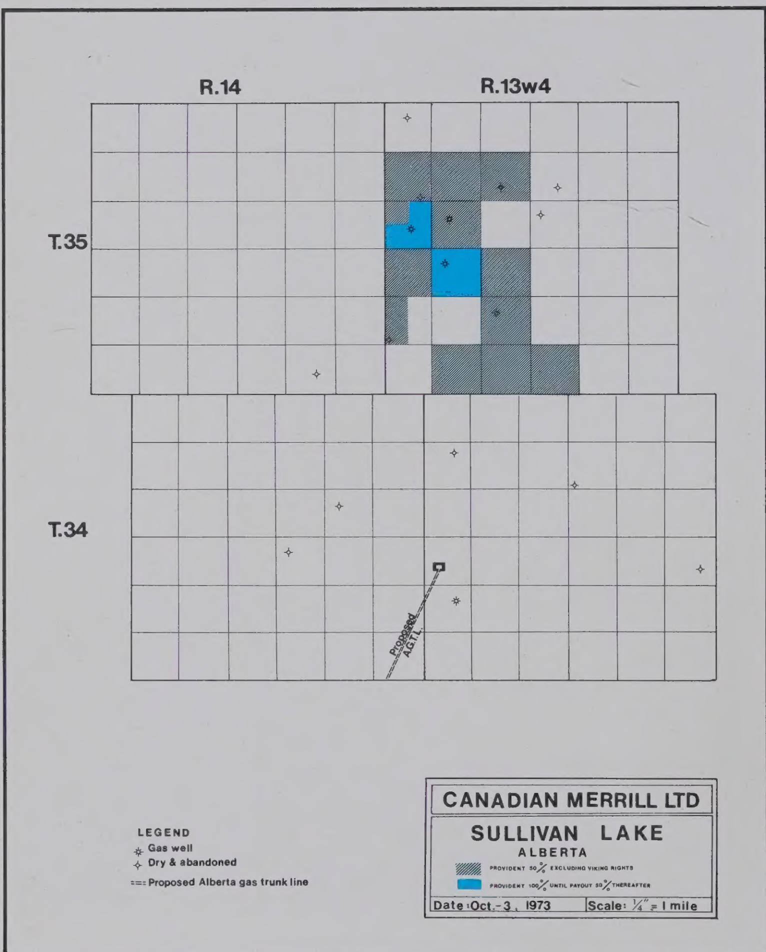
Original pumping unit used in the Wainwright area as compared to modern day pumping equipment at one of the Provident's oil leases.

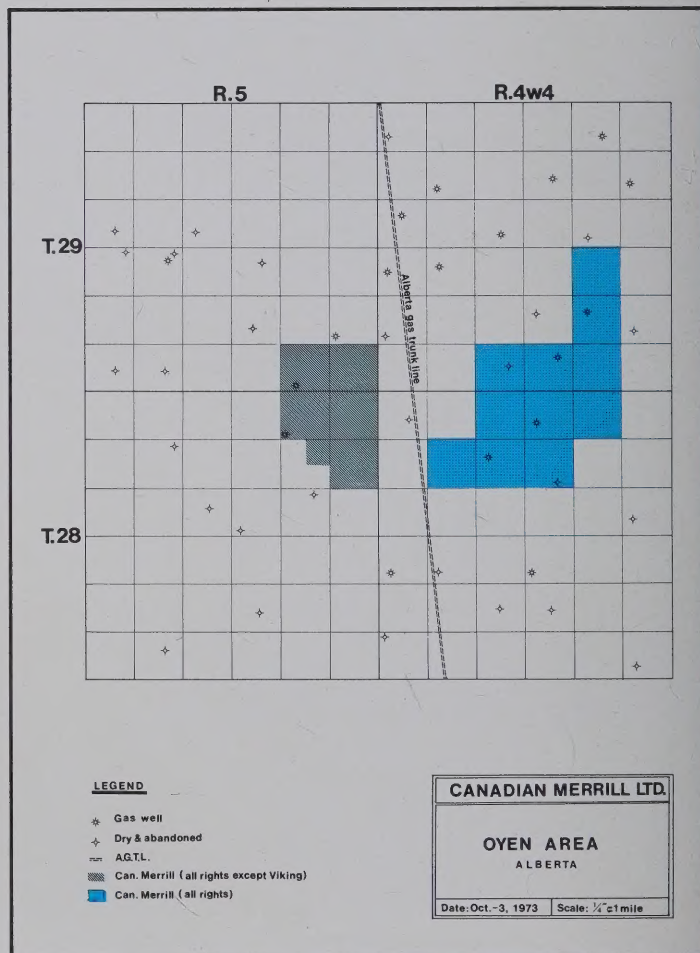
The Company, for its own account and through its wholly-owned subsidiary, Provident Resources Ltd., holds interests in 113,360 gross acres (70,000 net acres) and 353.0 gross wells (110.0 net wells) which are producing oil or gas or have been proved capable of producing. The producing wells are in 41 oil and gas fields in the Canadian provinces of Alberta, British Columbia, Saskatchewan and the States of Montana, Wyoming, Texas and West Virginia in the United States.

Our share of the daily net production from the wells currently producing was 685 barrels of oil and 15,200,000 cubic feet of natural gas during the month of June, 1973. Converting the gas production to equivalent barrels of oil, Merrill's production was approximately 1,698 barrels per day at year end.

In addition to current production the Company has developed further gas reserves which are scheduled to be placed on production in 1974 and 1975 representing daily net contract volumes of approximately 10,000,000 cubic feet per day or the converted equivalent of 670 barrels of oil per day.

The average price received for natural gas during the year was 16.09¢ per thousand cubic feet and





$3.50 a barrel for crude oil. During the latter part of our fiscal year and in the past few months well head crude oil prices have been increased by $0.60 a barrel and now average around $4.10 a barrel. Natural gas prices are not subject to free market forces but are generally determined through negotiations between the buyer and the producer. However, there has been a growing awareness that natural gas is substantially undervalued when measured against other fuels and both the producers and governments have been demanding that it be valued at a price more directly related to a commodity basis. Generally this principle has been accepted by the pipe line companies and it is anticipated that we will be negotiating new contracts on existing reserves in the immediate future.

Hanmore

Five gas wells were completed on the Hanmore area immediately to the west of the Company's Edward gas field. Through participation with the 1971 and 1972 Programme the Company now holds varying interests in seventeen gas wells in this area. Most of these have tested gas from more than one zone. A portion of the Company's acreage was offset by a discovery well in early 1973. The Provident Oil and Gas Programme 1973 will drill at least five more wells in this area.

)yen

'he Company purchased 3,840 cres and acquired additional iterest in 1,920 acres in the Oyen rea of eastern Alberta. Four gas vells were drilled on this acreage y the 1972 Programme. These vells are located within three miles f the Alberta Gas Trunkline ystem and the properties are cheduled to be placed on pro-uction in 1974. An additional ,840 acres of Crown leases were cquired early in 1973 for drilling ater this year.

'embina

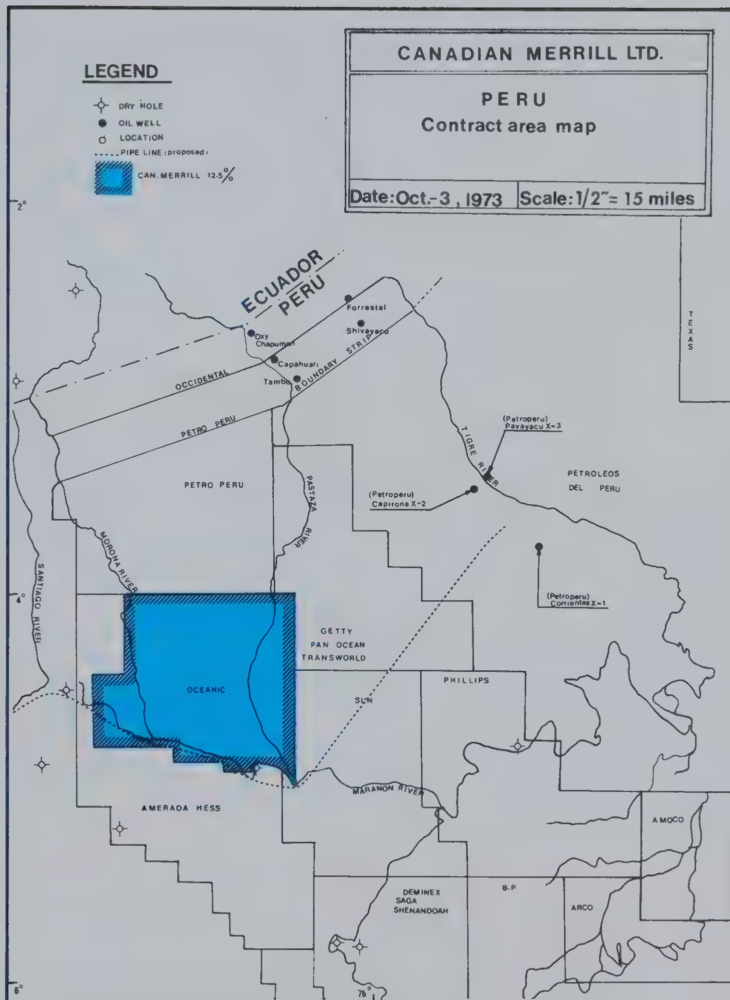
'hree oil wells were completed on ne Company lands in the Pembina eld. Due to wet weather these vells have not yet been placed on roduction. They are scheduled to e completed in the fall of 1973 nd should be producing before ear end.

Medicine Hat

'he Company holds a small iterest in 7.360 acres of Milk River ghts in the Medicine Hat field. 'our gas wells were completed on nese lands in 1973. It is expected nat additional development of this creage will be undertaken in 974.

'ullivan Lake Area

'wo dual zone gas wells were ompleted in the Sullivan Lake rea. A gas pipeline and gathering ystem has been planned for this rea and it is expected that these vells will be placed on production arly in 1974.



Peru

The Company has undertaken a 12½% participating interest in a 2,500,000 acre contract area (Block 4) located in the Upper Amazon Oriente area of northern Peru. Petro Peru, the Peruvian National Oil Company has now signed a total of 16 contracts in the Oriente in addition to retaining a large area for its own exploration and development. Although the Company has not yet signed its portion of the contract it is expected that formalities will be completed shortly. In the mean-time, the operator of Block 4, Oceanic Exploration Company has commenced exploration work in preparation for a drilling pro-gramme to begin within two years.

In the Oriente area Petro Peru has drilled 11 exploratory tests


Provident natural gas compressor facility near Warwick, Alberta.

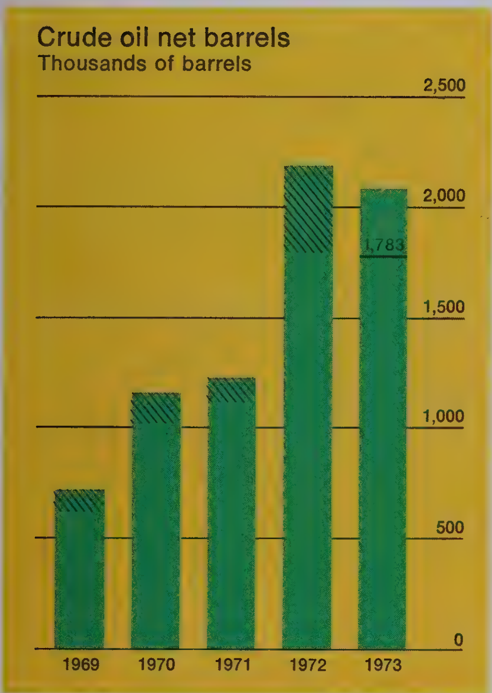
resulting in 6 commercial oil discoveries. These are located in an area approximately 90 miles to the north east of Block 4. More recently another operator in the area has made five discoveries on their first five wells. These wells are located approximately 90 miles to the north of Block 4. Tests have indicated that the wells are capable of 3,000 to 9,000 barrels of oil per day. Extensive seismic is presently being undertaken throughout the Oriente and a high rate of drilling activity is expected in the next year.

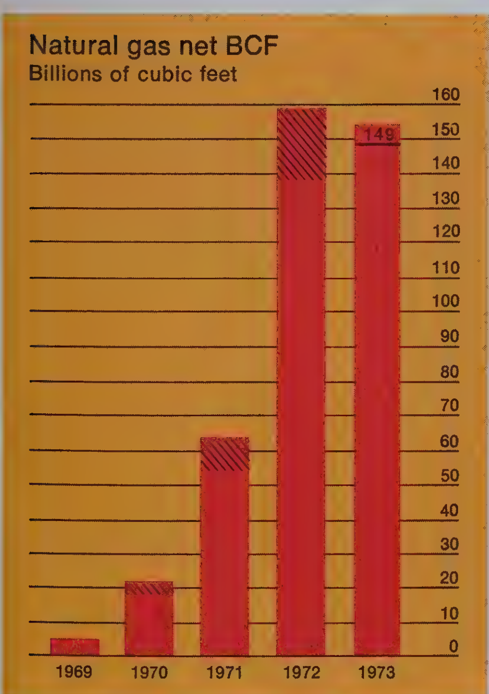
Oil and Gas Reserves

The Company's net proven and probable reserves on June 30, 1973 as evaluated by independent consulting engineers and our own staff totalled as follows:

	Net after royalty deductions
Natural Gas (MCF)	149,400,000
Crude Oil (bbls.)	1,783,000

It should be noted that this year's reserve figures are lower than those reported last year. This decline is primarily attributable to a change in the Company's method





in reporting reserves. If the Company had followed the practice consistent with last year the reported reserves would be 175,000,000 mcf. of natural gas and 1,800,000 bbls. of oil.

In addition to adjustments for production to date the principle change which has occurred affecting the net reserves reported has been a substantial increase in Provincial Royalty rates. The charts on the left have been adjusted to reflect these changes in the net reserves reported in prior years.

Acreage Holdings:

As of June 30, 1973 the Company owned the following gross and net producing and undeveloped acreage:

	Producing		Undeveloped	
	Gross	Net	Gross	Net
Alberta	112,720	55,134	266,599	157,463
Saskatchewan	480	312	—	—
British Columbia	160	24	8,526	1,840
United States of America	32,292	15,300	38,177	20,828
Arctic Islands	—	—	151,839	25,307
East Coast Offshore	—	—	72,169	12,028
Peru	—	—	2,470,000	308,750
United Kingdom North Sea	—	—	66,000	3,041
Total	145,652	70,770	3,073,310	529,257

Service Operations

Baldwin & Knoll Ltd. achieved record results in all areas. Sales were at an all time high as were both pre-tax and after-tax net earnings. This performance is basically attributable to two factors: a 20% expansion in the Company's fleet and a sharp rise in oil and gas output. During the period under review Baldwin & Knoll and its subsidiaries purchased six new rigs bringing the total fleet to 38 units. Among the new equipment added was a Wilson unit which is capable of servicing wells with a depth of over 20,000 feet. It is believed that this rig has the greatest depth capabilities of any such equipment in the country. This addition will place Baldwin & Knoll in a prime position to obtain service work in the foothills area of Alberta where most wells have depths of over 14,000 feet. The foothills region appears to hold great potential for major oil and gas discoveries. Any such developments will in turn create a requirement for servicing.

The sharp increase in demand for petroleum products over the last few years has placed considerable pressure on existing wells to meet the growing market. Both industry and government have combined forces to meet this challenge and several important steps have been taken to solve the problem. Among the more important steps was the easing of prorationing in Alberta and the placing of wells on a productivity basis. The higher output of individual wells has resulted in an increased servicing frequency in order to maintain productivity. At the same time previously discovered gas or oil which might have been shut-in be-

B & K medium size service rig at company yard in Edmonton.

cause of the lack of markets or production economies are rapidly being re-evaluated. This has also resulted in a demand for service rigs. It seems probable that the immediate future will witness much more of this type of activity so that Baldwin & Knoll should enjoy a high utilization rate on all of its equipment.

During the forthcoming year the Company anticipates that it will add at least two new rigs to the existing fleet. At the same time studies will be carried out to make certain that the existing equipment is properly deployed to ensure maximum utilization. The Company also intends to remain in the forefront of developments in the Northwest Territories and Arctic areas as well as the East coast offshore activities. In this regard Baldwin & Knoll in conjunction with others have formed a new company known as Service Arctic. This company, which is owned equally by the four participants, is working in close association with the oil companies developing the petroleum resources of the North to design the type of service equipment that will be most suitable for servicing in that environment.

L & M Oilfield Equipment Ltd.

L & M Oilfield Equipment's sales more than doubled last year when compared to the previous fiscal period. Cash flow and net income were almost three times higher in the 1972-73 period when measured against the previous twelve months.

Service rig under repair at L & M shop facilities.

The substantial improvement in revenues and profitability is attributable to a number of factors among which the following were the most important. The Company added nearly $500,000 of new rental equipment to its inventory. Included in this were several thousand feet of drill pipe which has been contracted to a major oil company at favourable rates for a substantial period of time. The high level of activity in the well servicing area created a strong demand for new and used service equipment. In this regard L & M sold five new Franks service units and several used rigs which were purchased mostly in the U.S. and were repaired and re-equipped in the Company's shop facilities in Edmonton prior to resale. This same high level of activity in the service field also provided a need for repair and maintenance work.

A large portion of the rental business was directly related to the large amount of exploration and development currently taking place in the Mackenzie Delta and to a lesser extent in the Arctic. At this time it appears that the Delta region will be the continuing scene of considerable exploratory drilling and consequently will provide a strong demand for the type of equipment which L & M leases and sells. In recognition of these favourable prospects the Company opened a sales office in Calgary last year and added three new sales personnel to its Edmonton office. There are strong indications that the petroleum industry is accelerating the pace of exploration and development. Such activity will benefit equipment rental operations and we are optimistic that we will successfully maintain our share of the growing market.

Mining Operations

The Company's principal mining activities were confined to the management and operation of the Icon Sullivan Joint Venture which is approximately 40 miles from the mill site at Chiboumagau. Both tonnage and grade of ore were slightly lower in the current year compared to the previous period. For the twelve months under review 212,000 tons of ore were processed in the mill yielding 12,068,000 pounds of copper. This compares to 217,000 tons and 13,220,000 pounds in the year earlier. The lower output was more than compensated for by a sharp rise in copper prices over the year. By year end copper quotations were just short of the previous all time record. The continuing strong demand combined with a shortage of smelting capacity as well as loss of output due to labour problems in the major producing countries appears likely to keep strong pressures on prices for quite some time. Thus, although output will probably be lower again next year, overall profitability will likely be higher due to better copper prices.

On the exploration front, almost all of our efforts were directed towards the underground develop-opment of the Perch River prospect which lies some eight miles from the Icon Sullivan deposit. The overburden covering was removed to bedrock and an opening in the rock was started. Unfortunately a great number of problems were encountered in this work and the

Portal opening at the Perch River property.

amount of progress was less than satisfactory. Nevertheless during the year some 680 feet of underground work was completed of which 140 feet was on the vein material. Subsequent to the year end the rate of advance has improved considerably. So far the underground work has confirmed the previous diamond drilling and we are highly encouraged about the commercial possibilities of this property. We should be in a position to reach some definite conclusions in the next few months.

In addition to Perch River several other prospects were examined during the year but none was deemed to be of continuing interest.

Icon Sullivan Joint Venture surface facilities.

Canadian Merrill Ltd.
and Consolidated Subsidiary Companies
Consolidated Statement of Operations
for the year ended June 30, 1973 (in Canadian dollars)

	Year ended June 30 1973	1972
Revenues:		
Sales and other operating revenues	$ 7,917,420	$ 1,308,435
Investment and other income	80,304	79,207
	7,997,724	1,387,642
Costs and expenses:		
Cost of sales and operations	4,792,149	530,815
General and administrative	1,089,621	396,972
Interest on long term debt	352,832	106,343
Interest — other	45,566	32,654
Mining exploration	60,310	158,881
Costs incurred in connection with the acquisition of Provident Resources Ltd. (Note 2)	—	82,778
	6,340,478	1,308,443
Funds generated from operations before current income taxes	1,657,246	79,199
Provision for depreciation, depletion and amortization	791,240	233,456
(Gain) on sale of properties and equipment	(107,245)	—
Equity in net (incomes) losses of affiliated companies	(21,135)	8,561
Equity in losses of unconsolidated subsidiary	—	122,076
Mining claims and related deferred costs written off	5,600	270,580
	668,460	634,673
	988,786	(555,474)
Income taxes:		
Current	75,299	16,198
Deferred	431,130	23,980
	506,429	40,178
Minority interest	11,530	565
	517,959	40,743
Income (loss) before extraordinary items	470,827	(596,217)
Provision for decline in value of investments (Note 13)	—	(670,044)
(Loss) on sale of investments (Note 6)	(27,682)	—
Gain on sale of petroleum drilling rig and equipment (net of $56,000 deferred income taxes)	58,532	—
Net income (loss) for the year	$ 501,677	$ (1,266,261)
Income (loss) per common share:		
Before extraordinary items	$ 0.24	$ (0.36)
Extraordinary items	0.01	(0.40)
Net income (loss) for the year	$ 0.25	$ (0.76)

Canadian Merrill Ltd.
and Consolidated Subsidiary Companies

Consolidated Statement of Changes in Financial Position
for the year ended June 30, 1973 (in Canadian dollars)

	Year ended June 30 1973	1972
Working capital was provided by:		
Operations —		
Funds generated from operations before current income taxes	$ 1,657,246	$ 79,199
Less: Current income taxes	75,299	16,198
	1,581,947	63,001
Extraordinary items —		
Sale of investments	754,687	—
Sale of petroleum drilling rig and equipment	175,000	—
Sale of shares of unconsolidated subsidiary	53,864	—
	2,565,498	63,001
New long term debt	2,537,570	1,930,000
Issue of common shares	2,500	1,841,010
Increase in deferred revenue	23,388	242,677
Sale of properties and equipment	601,122	—
Decrease in advances to drilling fund programs	81,778	525,345
Other	23,000	14,627
	5,834,856	4,616,660
Working capital was used for:		
Additions to properties and equipment	4,614,285	3,017,015
Acquisition of subsidiary companies	—	2,074,266
Working capital deficiency of subsidiaries acquired	—	144,282
Purchase of investments	7,990	185,686
Reduction of long term debt	1,791,566	846,211
Capital reorganization expenses	—	79,825
Advances to affiliated companies	26,787	—
Deferred exploration costs	228,549	16,397
Other	36,939	—
	6,706,116	6,363,682
Decrease in working capital for the year	$ 871,260	$ 1,747,022
Changes in working capital:		
Increase (decrease) in current liabilities —		
Bank demand loans and indebtedness	$ 169,164	$ 965,986
Accounts payable and accrued liabilities	486,083	461,634
Current portion of long term debt	316,642	748,162
	971,889	2,175,782
Less: Increase (decrease) in current assets —		
Cash	52,856	(861,144)
Accounts receivable	(37,195)	1,074,639
Inventories	79,529	121,323
Other current assets	5,439	93,942
	100,629	428,760
	$ 871,260	$ 1,747,022

Canadian Merrill Ltd. (Governed by the Quebec Companies Act)

and Consolidated Subsidiary Companies

Consolidated Balance Sheet

as at June 30, 1973 (in Canadian dollars)

assets	June 30 1973	1972
Current assets:		
Cash	$ 132,227	$ 79,371
Accounts receivable (Note 3)	1,973,612	2,010,807
Inventories (Note 4)	353,352	273,823
Prepaid expenses	61,972	56,533
	2,521,163	2,420,534
Interest bearing advances — drilling fund programs (Note 5)	15,957	97,735
Investments (Note 6):		
Companies for which there is a quoted market value	1,080,532	1,756,907
Affiliated companies not more than 50% owned	268,797	219,101
Unconsolidated subsidiary	—	168,775
	1,349,329	2,144,783
Properties and equipment, at cost (Note 7)	15,085,796	11,457,280
Less: Accumulated depreciation and depletion	3,767,453	3,486,746
	11,318,343	7,970,534
Deferred costs (Note 8)	351,251	150,855
Goodwill (Note 1), less amortization of $67,224 (1972 — $10,669)	1,066,522	1,119,501
Other assets, at cost	58,241	34,089
	$16,680,806	$13,938,031

APPROVED ON BEHALF OF THE BOARD:

R. P. MILLS, Director.

H. J. MOCKLER, Director.

	June 30 1973	1972
liabilities		
Current liabilities:		
Bank demand loans and indebtedness (Note 9)	$ 1,190,342	$ 1,021,178
Accounts payable and accrued liabilities	1,734,092	1,248,009
Current portion of long term debt	1,220,725	904,083
	4,145,159	3,173,270
Long term debt (Note 10)	4,149,223	3,403,219
Deferred oil and gas revenue	266,065	242,677
Deferred income taxes (Note 15)	1,208,913	721,782
Minority interest in subsidiaries	19,602	9,416
shareholders' equity		
Capital stock (Note 12):		
Authorized —		
2,000,000 preferred shares of $5.00 par value		
4,000,000 common shares of no par value		
Issued —		
2,013,920 common shares	6,692,037	6,689,537
Retained earnings (deficit)	199,807	(301,870)
	6,891,844	6,387,667
Contingent liabilities and commitments (Note 11)		
	$16,680,806	$13,938,031

Canadian Merrill Ltd.
and Consolidated Subsidiary Companies

Consolidated Statement of Retained Earnings (Deficit)

for the year ended June 30, 1973 (in Canadian dollars)

	Year ended June 30	
	1973	1972
Retained earnings (deficit), beginning of year:		
Opening balance after taking in account pooling of interests (Note 2)	$ (196,702)	$ 1,331,074
Less:		
Adjustment to carrying value of investments (Note 13)	85,423	—
Adjustment arising from adoption of equity accounting	—	167,113
Reassessment of fiscal 1968 Quebec mining taxes	19,745	19,745
Accrual for settlement of legal claim (Note 11(a))	—	100,000
	105,168	286,858
As restated	(301,870)	1,044,216
Net income (loss) for the year	501,677	(1,266,261)
Capital reorganization expenses	—	(79,825)
Retained earnings (deficit), end of year	$ 199,807	$ (301,870)

Auditors' Report

To the Shareholders of
Canadian Merrill Ltd.:

We have examined the consolidated balance sheet of Canadian Merrill Ltd. and consolidated subsidiary companies as at June 30, 1973 and 1972, and the related consolidated statements of operations, retained earnings (deficit), and changes in financial position for the years then ended, and have obtained all the information and explanations we have required. Our examination of the financial statements of Canadian Merrill Ltd. and those subsidiaries of which we are and were the auditors was made in conformity with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We examined the financial statements of all consolidated subsidiaries at June 30, 1973 and for the year then ended. We did not examine the financial statements of certain consolidated subsidiaries at June 30, 1972 and for the year then ended, which statements reflect total assets and revenues constituting 55% and 66%, respectively, of the related 1972 consolidated totals. These statements were examined by other auditors whose reports thereon have been furnished to us and our opinion expressed herein, insofar as it relates to amounts included for these companies for 1972, is based solely upon the reports of the other auditors.

In our opinion, subject to any adjustments to the consolidated financial statements which may result from the final determination of the matters set forth in Note 11(a), and according to the best of our information and the explanations given to us, and as shown by the books of the companies examined by us and the reports of other auditors furnished to us, these consolidated financial statements are properly drawn up so as to exhibit a true and correct view of the state of the affairs of the companies as at June 30, 1973 and 1972, and the results of their operations and the changes in their financial positions for the years then ended, in conformity with generally accepted accounting principles consistently applied.

PRICE WATERHOUSE & CO.,
Chartered Accountants.

Toronto, Canada
September 17, 1973

Canadian Merrill Ltd.
and Consolidated Subsidiary Companies
Notes to Consolidated Financial Statements
at June 30, 1973

1. Summary of significant accounting policies:

Principles of consolidation —

The consolidated financial statements include the accounts of Canadian Merrill Ltd. and all its subsidiaries except Quebec Uranium Mining Corporation (N.P.L.) the majority of which was disposed of during fiscal 1973.

During fiscal 1972 the Company adopted the equity method of accounting for affiliated companies more than 20% owned where this ownership results in the ability to exercise significant influence over operating and financial policies. The consolidated statement of operations therefore includes the Company's equity in the net income or losses of affiliated companies as well as the 1972 losses of Quebec Uranium Mining Corporation (N.P.L.).

For comparative purposes certain 1972 figures have been reclassified.

Acquisitions — Goodwill —

The consolidated financial statements include the results of operations and changes in financial position, since dates of acquisition, of businesses acquired in transactions accounted for as purchases. The cost of investment in such subsidiaries in excess of the estimated value of the underlying net tangible assets at dates of acquisition, "Goodwill", is being amortized by charges against operations over a twenty-year period on a straight-line basis.

The consolidated financial statements also include the results of operations and changes in financial position, for both fiscal 1973 and 1972, of a business acquired in a transaction accounted for as a pooling of interests.

Inventories —

Inventories held for resale are valued at the lower of average cost and net realizable value. Inventories of supplies are valued at the lower of average cost and replacement cost.

Oil and gas drilling fund programs —

As manager of oil and gas drilling fund programs, a subsidiary company, Provident Resources Ltd., charges each program with allocated direct costs incurred on the program's behalf. Unbilled costs include preliminary expenditures incurred on behalf of such programs.

Pursuant to the authority granted to it as manager of the programs, Provident finances continuing program activities by bank loans, secured by assignments of title to certain program properties. Advances to programs are considered to be eliminated on allocation of bank loans so obtained as outlined in Note 5.

Investments in companies for which there is a quoted market value —

These investments are carried at the lower of cost or estimated ultimate realizable value.

Properties and equipment — depreciation, depletion and amortization —

Oil and gas properties and equipment —

The companies follow the full cost method of accounting for petroleum and natural gas properties whereby all costs relating to the exploration for and development of oil and gas reserves are capitalized. Such costs include acquisition costs, geological costs, carrying charges of non-producing properties, costs of drilling both productive and non-productive wells and production equipment and gas facilities. Depletion and depreciation are provided for by the unit of production method based on the total estimated proven recoverable reserves of oil and gas. No gains or losses are recognized upon the sale or disposition of properties except under circumstances which result in major disposals of reserves.

Other properties and equipment —

Mill buildings and related equipment, less estimated salvage value, are being depreciated over the estimated life of a copper ore body to May 1975.

Buildings, service rigs and related equipment and rental equipment are depreciated over the estimated useful lives of such assets using the straight-line method, except for other equipment which is depreciated by the declining balance method. Depreciation rates are as follows:

	Rate per annum
Buildings	3 - 12½ %
Service rigs and related equipment	6⅔ %
Rental equipment	6⅔ - 20 %
Other equipment including automobiles, furniture and fixtures	20 - 30 %

Deferred costs —

Mining claims and related deferred exploration costs for all properties on which the Company does not intend to carry out further exploration, have been written off.

The Company has deferred its 10% share in the cost of a preconcentrator plant used under a joint venture agreement for milling copper ore. This amount, less estimated salvage value, is being amortized over the period of the joint venture agreement presently due to expire in May 1975.

Income taxes —

It is the policy of the Company and its subsidiaries to charge earnings with income taxes currently payable and with income taxes deferred by claiming certain costs and expenses (mainly exploration and development costs and depreciation) for tax purposes before they are recorded in the accounts as a charge against operations. The accumulated total of such income tax deferments is shown in the consolidated balance sheet as "Deferred income taxes".

The Company and each of its subsidiaries file separate tax returns. Income tax provisions and deferred income taxes, recorded in the consolidated financial statements, relate solely to subsidiaries.

Income (loss) per common share —

Income (loss) per common share has been calculated in accordance with Canadian practice by dividing the income (loss) by the weighted average number of common shares outstanding during each year. No material change would result assuming full dilution. Primary income (loss) per share, calculated in accordance with United States practice, is not materially different.

2. Acquisitions during fiscal 1972:

Pooling of interests —

On December 16, 1971 the Company acquired Provident Resources Ltd. (formerly Provident Resources Management Ltd.) by the issue

of 561,150 common shares in exchange for all the issued and outstanding shares of Provident, on the basis of 0.75 shares of the Company for each share of Provident. The revenues and net income of Provident, for fiscal 1972, were $421,293 and $8,839, respectively, and have been included in the 1972 accounts. The revenues and net income of Provident, from July 1, 1971 to date of acquisition, were $256,956 and $32,593, respectively.

Purchase —

On May 26, 1972, the Company acquired majority interests in Baldwin & Knoll Limited and Central Mining Corporation (N.P.L.). The consideration for 43,408 of the outstanding shares of Baldwin & Knoll was 310,560 common shares of the Company and $80,000 in cash. This acquisition increased the Company's direct ownership of Baldwin & Knoll from 21.3% to 79.2%.

The consideration for 182,080 of the common shares of Central Mining, an investment company whose principal asset is 20.8% of the outstanding shares of Baldwin & Knoll, was 57,642 common shares of the Company and $5,500 in cash. This increased the Company's ownership of Central Mining from 47.2% to 97.8%. During fiscal 1973 a further 3,024 common shares were acquired, for $4,668 cash, which increased the Company's ownership from 97.8% to 98.9%.

Prior to May 26, 1972 the Company's investments in the two companies referred to above were carried in the accounts as investments in companies not more than 50% owned.

Pro forma results of operations for fiscal 1972, on the assumption that these companies had been acquired on July 1, 1971 are shown below.

	1972 (as restated) (Note 13)	1972 (as reported)
Revenues:		
As reported	$1,387,642	$1,387,642
Pro forma	4,932,732	4,932,732
(Loss) before extraordinary item:		
As reported	(596,217)	(596,217)
Pro forma	(426,503)	(426,503)
(Loss):		
As reported	(1,266,261)	(1,180,838)
Pro forma	(1,096,547)	(1,011,124)
(Loss) per share:		
As reported	$ (0.76)	$ (0.71)
Pro forma	(0.65)	(0.60)

3. Accounts receivable:

Accounts receivable includes unbilled costs of $110,000 (1972 — $196,939) and a total amount, owing from a director and from an officer, of $35,325 (1972 — Nil).

4. Inventories:

	1973	1972
Oil and gas equipment for resale	$ 267,249	$ 146,617
Mill supplies	86,103	127,206
	$ 353,352	$ 273,823

5. Advances to drilling fund programs:

As outlined in Note 1, advances to drilling fund programs are considered to be eliminated on allocation of bank loans so obtained.

	1973	1972
Amounts charged to drilling fund programs	$1,200,630	$1,054,978
Bank loans allocated	1,184,673	957,243
Advances to drilling fund programs	$ 15,957	$ 97,735

6. Investments:

(a) Companies for which there is a quoted market value (Note 9) —

1973			
Shares of:	Original cost	Carried value	Quoted market value
Magnetics International Ltd.	$ 622,251	$ 622,251	$ 441,325
New Hosco Mines Ltd.	522,623	202,125	142,835
Other	498,309	256,156	348,589
	$1,643,183	$1,080,532	$ 932,749

1972 (as restated) (Note 13)			
Shares of:	Original cost	Carried value	Quoted market value
Magnetics International Ltd.	$ 622,251	$ 622,251	$ 725,864
New Hosco Mines Ltd.	522,623	202,125	202,125
Other	1,282,077	932,531	905,806
	$2,426,951	$1,756,907	$1,833,795

In the opinion of management, the excess of carried values over quoted market values for Magnetics and New Hosco, does not represent a permanent diminution in value of these investments at June 30, 1973.

(b) Investments in affiliated companies not more than 50% owned —

	1973	1972
Shares, at cost plus equity in undistributed net income since acquisition	$ 72,021	$ 35,273
Deferred gain on sale of equipment	(13,839)	—
Interest bearing advances	210,615	183,828
	$ 268,797	$ 219,101

(c) Investment in unconsolidated subsidiary —

	1973	1972
Quebec Uranium Mining Corporation (N.P.L.):		
Shares, at cost less equity in losses since acquisition	$ —	$ 145,775
Advances	—	23,000
	$ —	$ 168,775

During fiscal 1973, the Company sold the majority of this investment, reducing its holdings to approximately 10% from the 53.2% held as at June 30, 1972. The loss of $63,706, reduced by net gains on disposals of other investments of $36,024, is shown as an extraordinary item. The remaining shares held are included in item (a) above.

7. Properties and equipment:

	1973	1972
Cost:		
Land and buildings	$ 878,545	$ 1,328,734
Petroleum and natural gas properties	7,576,580	4,582,763
Service rigs and related equipment	4,045,233	3,542,584
Mill buildings and related equipment (i)	1,320,474	1,298,676
Rental equipment	777,014	311,936
Other equipment	487,950	392,587
	$15,085,796	$11,457,280
Accumulated depreciation and depletion:		
Buildings	$ 351,795	$ 522,067
Petroleum and natural gas properties	419,339	149,283
Service rigs and related equipment	1,692,911	1,616,467
Mill buildings and related equipment (i)	1,002,669	982,233
Rental equipment	90,759	41,350
Other equipment	209,980	175,346
	$ 3,767,453	$ 3,486,746

(*i*) These assets are located on property leased at an annual rental of $1 under an agreement extending for a period of seven years commencing upon the termination of a joint venture agreement presently due to expire in May, 1975.

8. Deferred costs:

	1973	1972
Deferred exploration costs, less amounts written-off	$ 244,946	$ 16,397
Joint venture preconcentrator-share of cost less amortization	106,305	134,458
	$ 351,251	$ 150,855

9. Bank demand loans and indebtedness:

Bank demand loans and indebtedness are secured by a general assignment of accounts receivable of subsidiaries and by certain of the investments as described in Note 6(a). These loans include an amount of $500,000 repayable in U.S. funds.

10. Long term debt:

	1973	1972
Canadian Merrill Ltd. —		
9¼% (1972 — 6½%) bank loan, evidenced by demand notes, secured by a general assignment of Merrill's interest in petroleum and natural gas properties, repayable monthly, to mature in 1978	$1,224,590	$1,300,000
Interest free gas contract prepayment, repayable monthly, to mature in 1977	56,686	73,235
	1,281,276	1,373,235
Provident Resources Ltd. —		
Banks loans, evidenced by demand notes, bearing interest at ¾ of 1% over bank prime rate, secured by a general assignment of company interests in certain petroleum and natural gas properties together with a specific assignment of production from these properties, presently repayable monthly, to mature in 1978	2,760,927	1,433,457
Baldwin & Knoll Limited —		
Term bank loans, bearing interest at 1¾% over bank prime rate, secured by a first mortgage on certain fixed assets and a floating charge debenture, repayable monthly up to 1977	1,152,000	1,033,667
9½% first mortgage, secured by specific properties, assignment of rental leases and a floating charge debenture, due July, 1978	123,073	147,073
7 to 10½% first mortgages secured by specific properties due on various dates up to 1984	24,615	168,406
8½ to 13% finance contracts, secured by specific properties, due in 1973 and 1974	20,339	93,792
8 to 10% loans, partially secured by inventory, with no fixed maturity	7,718	57,672
	5,369,948	4,307,302
Less: Current portion of long term debt	1,220,725	904,083
	$4,149,223	$3,403,219

Principal repayments over the next five years are as follows:

1974	$1,220,725
1975	1,196,565
1976	1,195,319
1977	1,121,959
1978	614,007

11. Contingent liabilities and commitments:

(a) Legal actions:

On March 27, 1972 judgement was rendered against the Company, in the action brought by United Obalski Mining Company, in the amount of $66,871 plus interest, from May 12, 1967, and costs. While the Company has filed an appeal against this judgement, management has considered it prudent to record a provision of $100,000 against an adverse decision on the appeal.

In 1971 the Company instituted an action in the Supreme Court of Ontario against J. Patrick Sheridan, Sheridan Geophysics Limited and North Canadian Enterprises for damages in the amount of $2,068,000 as well as a separate claim for $58,462. The defendants in this action have counterclaimed for damages totalling $3,900,000 with respect to the same transaction. Based on the information presently available to legal advisors they do not believe that the counterclaim would be successful.

On November 19, 1972 a suit was filed in the United States District Court for Eastern Massachusetts by an investor in Provident Oil and Gas Year End Program 1970, naming the Company and its subsidiary, Provident Resources Ltd. and Cardinal Securities, Inc., the registered broker-dealer which sold that Program, as defendants. The plaintiff alleges certain violations of the federal and Massachusetts securities laws as well as breach of the partnership agreement, and seeks rescission of his investment of $60,000, plus interest to date or, in the alternative, an unspecified amount of damages. On January 12, 1973 Answers were filed on behalf of Provident Resources Ltd. and Cardinal Securities, Inc. denying all the plaintiff's claims and stating certain affirmative defenses. On the same date, a motion to dismiss for Lack of Jurisdiction was filed on behalf of Canadian Merrill Ltd. (as a corporation) and briefs have been filed in support of that motion. The Company's legal counsel is unable to express a firm

or detailed opinion on the outcome of this litigation; however, management is of the opinion that this claim is unfounded in its entirety and accordingly no provision has been made for this claim in the accompanying financial statements.

On August 24, 1971 Provident was served with a statement of claim in the amount of $256,195 together with interest thereon and court costs with respect to a farmout agreement. This action has now been heard in the Supreme Court of Alberta and judgement granted against Provident in the amount of $7,328; the matter of costs is still to be determined by a further reference to the trial judge. The formal judgement has not yet been entered and the time for appeal therefrom has not expired.

(b) Bank loans:

To the extent that bank loans referred to in Note 5, are not repaid from the proceeds of production from, or sale of, program properties, Provident would be directly liable.

The subsidiary, Baldwin & Knoll Limited, has guaranteed bank loans of affiliated companies. These loans, at June 30, 1973, amounted to $224,000.

(c) Oil and gas program operations:

Provident enters into separate agreements with the Programs (organized as co-owner participant joint ventures or limited partnerships) to acquire and develop oil and gas properties under the management of the Company. Generally, the Programs agree to:

(1) compensate Provident for services rendered by payment of a management fee based on a percentage of expenditures;

(2) reimburse Provident for all geological, exploration and direct operating costs; and

(3) in the case of certain earlier programs, an assignment of an overriding royalty and net profits interest in the Program's leaseholds, as defined.

In turn, Provident agrees to furnish the necessary services to conduct the Program's business.

12. Capital stock:

	Number of shares	Value attributed to shares
Shares issued at July 1, 1971	1,084,068	$4,405,727
Issued in December 1971 in exchange for the shares of Provident	561,150	442,800
Issued in May 1972 in exchange for the shares of Baldwin & Knoll	310,560	1,552,800
Issued in May 1972 in exchange for the shares of Central Mining	57,642	288,210
Shares issued at June 30, 1972	2,013,420	6,689,537
Issued in March 1973 for cash upon exercise of employee stock option rights	500	2,500
Shares issued at June 30, 1973	2,013,920	$6,692,037

At June 30, 1973, 124,500 shares (1972 — 103,796) were reserved for issuance under an Incentive Stock Option Plan pursuant to which options have been granted to employees, including officers, to purchase 122,500 shares (1972 — 62,500) at prices ranging from $5.00 to $6.50 per share. The outstanding options are exercisable over a five year period and not more than 20 per cent may be exercised in one year. These options expire on or before January 18, 1978.

13. Adjustment to the carrying value of investments:

During the 1973 audit it was determined that the carrying value of certain investments and the provision for decline in that value had been incorrectly calculated at June 30, 1972. As the result of this error, the carrying value of shares, for which there is a quoted market value, was overstated by $85,423 and the fiscal 1972 "provision for decline in marketable securities" was understated by $85,423. Accordingly, the accounts have been corrected by a charge to the deficit account as at June 30, 1972 and, for purposes of comparison, the fiscal 1972 "provision for decline in value of investments" has been restated.

14. Remuneration of directors and officers:

The Company has eight directors who received fees of $11,200 ($17,400 in 1972) and six officers, four of whom are also directors, who received remuneration of $193,812 ($104,135 in 1972) in their capacity as officers.

15. Income taxes — Canadian Merrill Ltd.:

As outlined in Note 1, recorded deferred income taxes relate solely to the Company's subsidiaries. No provision for income taxes is required in the accounts of Canadian Merrill Ltd. (as a corporation) because its operations, to date, have resulted in accounting losses. On a cumulative basis, costs and expenses charged to operations exceed the corresponding amounts claimable for tax purposes by approximately $3,900,000 of which approximately $100,000 arose during fiscal 1973 (1972 — $3,000,000 cumulatively, before adjustment for disputed items reassessed in the Company's favour in fiscal 1973 of approximately $800,000). No recognition has been given in the accounts for possible future tax benefits related thereto. Assuming tax depletion and a resulting effective tax rate of 33⅓%, such benefits would amount to approximately $1,300,000 or assuming no tax depletion and a resulting effective tax rate of 50%, such benefits would amount to $1,950,000. Since the realization of these possible future tax benefits is not virtually assured they have not been recorded in the accounts.

16. Subsequent bank loans:

Subsequent to June 30, 1973 additional demand bank loans were obtained amounting to $1,050,000 of which $550,000 is repayable in U.S. funds.

Subsidiaries of Canadian Merrill Ltd.

Baldwin & Knoll Limited

Canadian Merrill (U.K.) Ltd.

Central Mining Corporation

L & M Oilfield Equipment Ltd.

Provident Resources Ltd.

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